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# Access for Infants and Mothers (AIM) Program – Audit of CenCal Health for the 2005/2006 and 2006/2007 Contract Periods

Final and Confidential

Prepared for the

Managed Risk Medical Insurance Board

MERCER

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# Executive Summary – Findings

The Managed Risk Medical Insurance Board (MRMIB) requested that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, conduct an audit of CenCal Health (CenCal), a current AIM Health Plan. The on-site audit was conducted at CenCal's Goleta, California offices February 17, 2009, through February 18, 2009, and test work covered the 2005/2006 and 2006/2007 contract periods. Key findings from this audit are as follows:

- The Monthly Financial Reports submitted by CenCal capture enrolled members, transfers in/out and retro cancels. It appears that some corrections to these reports were made during the MRMIB AIM reconciliation that was performed in 2008. These findings have all been appropriately settled. Therefore, no additional funds need to be recouped or paid to the health plan in relation to those errors.
- Out of the 216 members subject to test work, there were three members for whom no services were provided. Two of these members had already been appropriately accounted for as transfers out through a Monthly Financial Report. Therefore, the total amount of repayment owed to MRMIB for these three members is $8,458.65. This amount reflects the difference between the net amounts previously paid to CenCal and the five percent they are entitled to retain per contract.
- Rate Development Templates (RDTs) were prepared in accordance with MRMIB's instructions. The only issue noted in the RDTs was that most of the newborn costs were included in with the mother's costs. This is a result of the way the hospital and physician claims are submitted by providers.

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# Introduction

MRMIB requested Mercer to conduct a limited scope audit of CenCal, a current AIM health plan for the 2005/2006 and 2006/2007 contract periods.

On January 6, 2009, CenCal was advised of the upcoming audit by MRMIB. On January 9, 2009, Mercer sent a letter to CenCal outlining the scope of the audit and the preliminary data request. Mercer representatives were on-site at CenCal's Goleta, California offices February 17, 2009, through February 18, 2009. CenCal representatives were well prepared and responsive during the audit. Amy Sim, the General Accounting Manager, facilitated the audit on behalf of CenCal.

The remainder of this document summarizes the audit objectives, approach and findings.

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# Audit Objectives

The specific objectives were as follows:

- Through test work on 2005/2006 and 2006/2007 AIM mothers, confirm that AIM mothers received services during their enrollment
- Confirm that CenCal has appropriately accounted for transfers in/out and retroactive disenrollments in the Monthly Financial Reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods
- Determine CenCal's loss ratio and net profit for the 2005/2006 and 2006/2007 contract periods
- Calculate any overpayments and underpayments arising from the audit of the contract periods
- Determine the source of information CenCal uses to complete their RDT
- Determine how newborns of AIM mothers are accounted for in financial reporting and in the RDT
- Determine the basis on which CenCal reimburses their providers
- Verify the database CenCal uses to maintain the listing of mothers enrolled, per Maximus

Mercer developed audit procedures to support the objectives of the audit. Through discussion with CenCal and MRMIB, it was agreed that the CenCal's entire enrollment for the two-year period would be subject to test work (as opposed to sampling).

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# Audit Approach and Findings for Each Objective

Mercer's approach and findings for each audit objective follow.

## AIM Mothers Receipt of Service Test Work

### *Approach*

Mercer first had to identify the universe of mothers newly enrolled with CenCal during the two-year period. The universe was identified to be mothers who were enrolled with CenCal and a corresponding payment made during contract year 2005/2006 or 2006/2007. These mothers were summarized in a set of files sent to Mercer from Deborah Simmons of MRMIB.

The test work consisted of a claims review and comparison to the Monthly Financial Reports, prepared by CenCal and submitted to MRMIB. Mercer requested a complete claims history for each member along with a hard-copy of at least one paid claim for each member. A sub-sample of claims were then selected to trace the reported payment amounts through the remittance advice, and ultimately, to the bank statement, to see that a payment was actually made for the claim. In addition, a sub-sample of claims were traced back to the provider contracts to ensure that the amount paid was calculated in accordance with contract provisions. If the mother was terminated, transferred in or out and appropriately recognized on the Monthly Financial Report, this was not considered an error, even if no services were provided.

For each claim, the mother's name was first verified with our sample set. If the name was not an exact match, the patient's AIM identification number and birth date were used for verification. The patient name, date of service and claim amount was then verified with the remittance advice to support that the remit was appropriate documentation of payment for the given claim.

### *Findings*

Per contract, the health plan is required to pay all but 5 percent of the rate back to MRMIB for members who did not utilize any services. Of the 216 AIM members subject to the test work, Mercer noted the following:

- There were three members for whom no services were provided. Two of these members had already been appropriately accounted for as transfers out through a Monthly Financial Report. When a member is accounted for as a transfer out, the plan pays back MRMIB 75 percent of the rate. Therefore, at this time the health plan owes back just 20% for the two members who had already been accounted for as transfers out and 95 percent for the third member.
- The total amount of repayment owed to MRMIB for these three members is $8,458.65. This amount reflects the difference between the net amounts previously paid to CenCal and the five percent they are entitled to retain.

## Monthly Financial Reports

### *Approach*

Mercer requested copies of all financial reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods. New mothers, transfers in/out and retro cancels were compared to a report received directly from MRMIB/Maximus. Mercer also performed a recalculation of the amounts reported.

### *Findings*

The Monthly Financial Reports captured enrolled members, transfers in/out and retro cancels. We found no exceptions to information reported in the Monthly Financial Reports, although, it appears that some corrections were made during the MRMIB AIM reconciliation that was performed in 2008. That reconciliation covered the time period from July 1, 2004, through October 31, 2006. The result of that audit was $11,850 of additional net payment related to 21 different members. These findings were all appropriately settled with MRMIB. Therefore, no additional funds need to be recouped or paid to CenCal in relation to those issues.

## Loss Ratio and Net Profit

### *Approach*

Mercer requested that CenCal prepare income statements for the 2004/2005, 2005/2006 and 2006/2007 contract periods using the California Department of Managed Health Care Annual Reporting forms. We reviewed these income statements with Amy Sim, the General Accounting Manager.

### *Findings*

Reported financial information is as follows:

| | 2004/2005 | 2005/2006 | 2006/2007 |
|---|---|---|---|
| Total Revenues | $862,572 | $802,311 | $663,167 |
| Medical Expenses | $946,303 | $939,300 | $717,356 |
| Administration | $48,521 | $41,654 | $14,051 |
| Net Income (Loss) | ($132,252) | ($178,643) | ($68,240) |
| Profit (Loss) Ratio | -15.33% | -22.27% | -10.29% |
| Administration/Capitation Revenue | 5.63% | 5.19% | 2.12% |
| Medical Cost Ratio | 109.71% | 117.07% | 108.17% |

CenCal recognizes revenue on a deferred basis over a six-month period. They recognize expenditures on an accrual (date of service) basis. This is a reasonable and appropriate matching of payment to expenditures.

We noted some reasonably large discrepancies between the expenditures reported on the Income Statements versus those reported as base data in the 2008/2009 RDT submission. Specifically, the total medical expenditures per the Income Statement for 2005/2006 and 2006/2007 ($939,300 + $717,356) was $1,656,656. Mercer confirmed with CenCal that these expenditures included all costs for the AIM program (i.e., including the cost of AIM children). However, the amount reported for medical expenses on CenCal's RDT for this same time period was $1,796,122 and it did not include the cost of AIM children. Therefore, the true difference is estimated to be approximately 15 percent. The health plan was unable to offer a clear explanation for the difference. However, because AIM rates were frozen for most of the 2008/2009 contract year, then only small rate increases were granted (in February), the RDT reporting was not used to renegotiate rates and therefore did not result in any overpayment.

The administrative expenditures reported for the two-year period on the Income Statements ($41,654 + $14,051) was $55,705. The amount reported on the RDT for administrative expenses was $10,150. The explanation for this differential is as follows; CenCal included only one year (the second year) of administrative expense in the RDT. If the first year is added back in, the difference between the RDT and the Financial Statements is not significant.

## Information CenCal Uses to Complete the Rate Development Template (RDT)

### *Approach*

Mercer reviewed CenCal's contract year 2008/2009 RDT (base data from 2005/2006 through 2006/2007). In addition, Mercer interviewed Mouline Chiourn, Accountant III, who was able to walk us through the overall process utilized to complete RDTs.

### *Findings*

Schedule Two of the RDT (Revenue, Expense and Utilization Statement) was prepared by using historical AIM claims data with dates of service from July 1, 2005, through June 30, 2007. No adjustment was made to complete the data used for the RDT for IBNR. We also noted the following:

- Most newborn days/costs were included in the mother's inpatient expense categories
- Overall, the claims threshold distribution appeared to be reasonable. However, the total costs reported in this section of the RDT were lower (6–18% lower for mothers and children, respectively) than the base data reported in Schedule 2.
- Otherwise, the total historical costs reported in the RDT appear to be generally reasonable.

Schedule Three of the RDT (Trend Assumptions) includes annual trends to be applied to the historical data. Cost trends were based upon various analyses, including average increase in Medicare fee schedule, projected (estimated) rate increase needed for hospital negotiations and average drug ingredient cost inflation. We noted the following regarding annualized trend rates:

- Annualized unit cost trend rates range from 0.0 percent (outpatient hospital) to 8.0 percent (pharmacy), with most rates falling between 1.5 and 3.0 percent
- Annualized utilization trend rates were all set at 0.0 percent

The trend figures submitted in the RDT are reasonable.

Schedule Four (Projected Health Care Costs and Proposed Rates) is largely calculated cells and/or a summary of claims distribution that was developed from historical data. Schedule Four also includes Administration and Profit/Risk/Contingency load factors. We noted the following regarding Schedule Four:

- The Administrative load percentage calculated in the RDT was 0.7 percent
- The Profit/Risk/Contingency included in the RDT was 0.0 percent

Both the Profit/Risk/Contingency load and the Administrative load included in the RDT are less than what would normally be expected for an AIM program.

## Accounting for Expenditures Related to Newborns of AIM Mothers

### *Approach*

Per the CenCal contract, the "...State shall pay for infants born to subscribers who enroll in the program on or after July 1, 2004, through the Contractor's contract with the State for Healthy Families Program" (Exhibit B, I. B. 4). Accordingly, limited expenses related to newborns are applicable to the AIM contract. The following services provided to newborns of AIM mothers would be covered under the AIM program: newborn examinations and nursery care while the mother is hospitalized and coverage of participation in the State wide prenatal testing program administered by the State Department of Health Care Services, known as the Expanded Alpha Feto Protein Program. During our sample test work, Mercer looked for evidence of newborn claims and how they were handled. In addition, we discussed CenCal's process for handling newborn claims with Lulu Von Alvensleben, the Director of Claims Operations.

### *Findings*

CenCal's staff members were aware of the change in how newborns were to be accounted for effective July 1, 2004. Their claims processing system/procedures appeared to appropriately split the newborn claims between the AIM and Healthy Families Program (HFP). We found only allowable claims for newborns included in the claims histories of AIM mothers. In addition, the newborn expenditures included in the RDT appeared reasonable.

## Basis on Which CenCal Reimburses Their Providers

### *Approach*

Mercer requested CenCal to provide narrative write-ups documenting their approach to developing, paying and reconciling payments, including capitation payments to providers. While on site, Mercer discussed this topic with the Senior Provider Services Representative, Marina Gordon.

### *Findings*

CenCal considers the AIM and HFP programs to be "Commercial" products. Because of this, they pay providers a different/higher rate for AIM and HFP members as compared to Medi-Cal members. They contract directly with providers as opposed to using middle-tier IPAs. They also contract with the County of Santa Barbara's Federally Qualified Health Center (FQHC). This FQHC is paid the same rate as all other providers for AIM and HFP members. Physicians are paid at 120 percent of the Medicare fee schedule, while other ambulatory care providers are paid at 100 percent of the Medicare fee schedule. Their contracted hospitals are paid on a negotiated per-diem basis. CenCal does not use capitation to pay providers for the AIM program.

The payment arrangements CenCal has with their provider network appear to be reasonable for a commercial insurance product.

# Verification of Database CenCal Uses to Maintain Mothers' Enrollment

## *Approach*

CenCal provided a write-up summary of their approach for accepting, processing and reconciling enrollment information and how members are assigned to providers. In addition, Mercer reviewed the Monthly Financial Reports (invoices) submitted by CenCal to MRMIB for billing months July 1, 2005, through June 30, 2007, to verify the process/summary described by CenCal. We interviewed Rebecca Hudson, the Compliance Coordinator, and Amy Sim, the General Accounting Manager for additional information.

## *Findings*

AIM enrollment is received daily from Maximus via FTP file. The files are saved in their original state and then the enrollment information is loaded into CenCal's Caradigm system.

Throughout the month, the IT system (Caradigm) generates e-mails to Amy Sim notifying her of new members and/or termed members. There are two reports generated (Report # cmbrrs1003 and #cmbrus1001) that provide additional information for use in creation of the Monthly Financial Reports. When the Monthly Financial Reports are submitted to MRMIB, the information is verified by MRMIB staff and then the report is finalized. The enrollment process and related activities for completion of the Monthly Financial Report appear appropriate.

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